

## Tax

Issue H80/2018 – 28 February 2018

# Tax Analysis

## 2018/19 Budget Analysis

### A holistic budget with forward-looking vision

The Financial Secretary for the Hong Kong Special Administrative Region (HKSAR), Mr. Paul Chan Mo-po, delivered his speech on the 2018/19 Budget on 28 February 2018. This is the second budget prepared by Mr. Chan since his appointment as the Financial Secretary.

Against the backdrop of a massive financial surplus and a volatile macro-economic climate, including the recent U.S. tax reform and the ongoing developments under the OECD's Base Erosion and Profit Shifting (BEPS) project, the Financial Secretary announced a wide range of measures designed to maintain local economic sustainability and address the changes in the global economic environment. The 2018/19 Budget aims at enhancing Hong Kong's competitive edge as a financial hub for multinational corporations, fostering the development of pillar industries, encouraging growth in the innovation and technology (I&T) and research and development (R&D) sectors, and seizing opportunities created under the direction and strategies of China's economic development by leveraging Hong Kong's distinctive advantages. The 2018/19 Budget also demonstrates the government's commitment to utilize the surplus to address the needs of the population.

The HKD 138 billion surplus for FY2017/18 results mainly from Profits Tax and Salaries Tax receipts, land sales and stamp duty. The fiscal reserves are expected to reach a historical high of HKD 1,092 billion by 31 March 2018. It is not surprising that the general public has been expecting more sweeteners, one-time/short-term stimulus measures and increased public expenditure by the government. The 2018/19 Budget is considered detailed, comprehensive and abundant in measures to alleviate the tax burden, consistent with the general public's expectation. In addition, the government's forward-looking vision in investing for the future as demonstrated in various proposed initiatives is welcomed.

Hong Kong Budget Team:

#### Hong Kong

##### **Sarah Chan**

Tax Partner

Tel: +852 2852 1628

Email: sarahchan@deloitte.com.hk

##### **Mona Mak**

Tax Partner

Tel: +852 2852 1051

Email: monmak@deloitte.com.hk

##### **Alfred Chan**

Tax Director

Tel: +852 2852 6531

Email: alfchan@deloitte.com.hk

This analysis highlights the key tax proposals in the 2018/19 Budget:

## **Businesses**

### *Greater Bay Area*

To seize the business opportunities arising from Mainland China's Belt and Road initiative, measures will be introduced to link Hong Kong, Macau, Guangzhou, Shenzhen, Zhuhai, Foshan, Zhongshan, Dongguan, Huizhou, Jiangmen and Zhaoqing into an integrated economic and business hub, the "Guangdong-Hong Kong-Macau Greater Bay Area" (GBA). A discussion unit is expected to be set up to enhance cooperation between these cities. We are pleased to see the government's commitment to strengthening Hong Kong's competitiveness in serving as the gateway to Mainland China and Asia. Nevertheless, we anticipate that implementation of the GBA measures will face challenges in aligning the different tax policies/regimes of the governments of the various constituencies.

### *One-time relief measures for businesses*

Similar to 2017/18, the 2018/19 Budget continues to provide a tax rebate on profits tax of 75% (up to HKD 30,000) payable for 2017/18. We welcome this one-off relief measure, which will ease the burden of doing business in general.

### *R&D expenditure*

The Financial Secretary reiterated in the 2018/19 Budget that a 300% tax deduction would be granted for the first HKD 2 million qualifying R&D expenditure, with the remainder subject to a 200% tax deduction, without capping the amount of the enhanced tax deduction. Deloitte welcomes these measures to encourage the development of the high-tech/innovation and design sector in Hong Kong, but would hope that the government will provide clear guidance for taxpayers while the relevant legislation is being drafted. In addition, the government could consider providing more tax incentives to accelerate the development of the R&D sector in Hong Kong. In addition to the tax deduction on qualifying R&D expenditure, Deloitte recommends the government consider providing a concessionary tax exemption on royalty income and salaries tax incentives for talent coming to work in Hong Kong.

### *Financial services industry*

The Budget contains various tax measures for the financial service industry, including an extension of the tax exemption under the qualifying debt instrument scheme. The government also will explore the feasibility of new tax and regulatory regimes for the insurance industry and private equity funds to foster the growth of the financial services industry in Hong Kong. Further, the government will continue to review the tax concession arrangements applicable to the fund industry with regard to international requirements on tax cooperation in the context of international initiatives in this area. Deloitte welcomes the proposed measures that aim to maintain and enhance Hong Kong's competitive edge as a leading international financial hub.

However, the Budget does not contain any proposals on the long-anticipated regional headquarters tax concession regime to encourage multinational groups to set up their regional headquarters (RHQ) in Hong Kong. We hope that the government will consider the introduction of an RHQ tax concession regime, for example, by granting a lower Profits Tax rate to multinational groups that use Hong Kong as their RHQ locale.

## **Individuals**

### One-time relief measures

- 75% rebate of salaries tax and tax under personal assessment capped at HKD 30,000;

- Waiver of rates for the four quarters of 2018-2019, subject to a ceiling of HKD 2,500 per quarter for each rateable property;
- Extra allowance for social security recipients, equal to two months of the standard rate Comprehensive Social Security Assistance payments, Old Age Allowance, Old Age Living Allowance or Disability Allowance; and
- One-time grant of HKD 2,000 to each student in need.

#### Recurring tax measures

- Increase the number of tax bands from four to five, broaden the marginal bands for salaries tax from HKD 45,000 to HKD 50,000 and adjust the marginal tax rates to 2%, 6%, 10%, 14% and 17%, respectively. We expect that these changes also would apply to tax under personal assessment;
- Increase the basic and additional child allowances from HKD 100,000 to HKD 120,000;
- Increase the dependent parent / grandparent allowances from HKD 46,000 to HKD 50,000 (aged 60 or above) and HKD 23,000 to HKD 25,000 (aged between 55 and 59). The same increase would apply to the additional allowance for taxpayers residing with parents/grandparents continuously throughout the year;
- Increase the deduction ceiling for elderly residential care expenses from HKD 92,000 to HKD 100,000;
- Introduce a personal disability allowance of HKD 75,000; and
- Provide a tax deduction for qualified premiums for taxpayers who purchase eligible health insurance products for themselves or their dependents under the Voluntary Health Insurance Scheme, up to a ceiling of HKD 8,000 per insured person.

Overall, Deloitte welcomes these measures, in particular, the various recurring tax measures that aim at alleviating the long-term tax burden on individual taxpayers, but would suggest that the government consider a wider range of measures to alleviate the challenges arising from an aging population and elderly poverty. In addition to the above, the Budget proposes the separate election of personal assessment by married persons, which has been a long-standing request from the public. Deloitte applauds the proposed change to recognize the needs and provide greater flexibility to taxpayers. We also are pleased that the government will continue the implementation of the proposed tax deduction to encourage the use of private healthcare services by the public to counter the possible increase in public expenditure due to the aging population.

#### **Comments**

Unlike Mr. Paul Chan's last budget, the 2018/19 Budget is detailed, comprehensive and abundant in measures to alleviate the tax burden. The diverse initiatives to stimulate the business sector, in particular, the pillar industries including I&T, the financial services industry, etc. with a view to maintaining the long-term prosperity of Hong Kong. The proposed tax band and rates for salaries tax should provide long-term relief of individuals' tax burdens and demonstrates the government's willingness to make use of the substantial surplus accumulated from the past 10 years to resolve social problems instead of providing one-off stimulus measures to the public. Deloitte welcomes the initiatives for wide range of industries and measures to stimulate the future job market in the I&T, R&D and financial services sectors. However, we hope the government would consider more immediate measures to promote Hong Kong's status as the preferred location for setting up an RHQ. All in all, Deloitte concurs with the government's visionary strategy and efforts in embracing the evolving global environment and resolving local social conflicts.

**Tax Analysis** is published for the clients and professionals of the Hong Kong and Chinese Mainland offices of Deloitte China. The contents are of a general nature only. Readers are advised to consult their tax advisors before acting on any information contained in this newsletter. For more information or advice on the above subject or analysis of other tax issues, please contact:

#### Beijing

##### Andrew Zhu

Partner  
Tel: +86 10 8520 7508  
Fax: +86 10 8518 1326  
Email: andzhu@deloitte.com.cn

#### Chengdu

##### Frank Tang / Tony Zhang

Partner  
Tel: +86 28 6789 8188  
Fax: +86 28 6500 5161  
Email: ftang@deloitte.com.cn  
tonzhang@deloitte.com.cn

#### Chongqing

##### Frank Tang / Tony Zhang

Partner  
Tel: +86 23 8823 1208 / 1216  
Fax: +86 23 8859 9188  
Email: ftang@deloitte.com.cn  
tonzhang@deloitte.com.cn

#### Dalian

##### Bill Bai

Partner  
Tel: +86 411 8371 2816  
Fax: +86 411 8360 3297  
Email: bilbai@deloitte.com.cn

#### Guangzhou

##### Victor Li

Partner  
Tel: +86 20 8396 9228  
Fax: +86 20 3888 0121  
Email: vicli@deloitte.com.cn

#### Hangzhou

##### Qiang Lu / Fei He

Partner / Director  
Tel: +86 571 2811 1901  
Fax: +86 571 2811 1904  
Email: qilu@deloitte.com.cn  
fhe@deloitte.com.cn

#### Harbin

##### Jihou Xu

Partner  
Tel: +86 451 8586 0060  
Fax: +86 451 8586 0056  
Email: jihxu@deloitte.com.cn

#### Hong Kong

##### Sarah Chin

Partner  
Tel: +852 2852 6440  
Fax: +852 2520 6205  
Email: sachin@deloitte.com.hk

#### Jinan

##### Beth Jiang

Partner  
Tel: +86 531 8518 1058  
Fax: +86 531 8518 1068  
Email: betjiang@deloitte.com.cn

#### Macau

##### Raymond Tang

Partner  
Tel: +853 2871 2998  
Fax: +853 2871 3033  
Email: raytang@deloitte.com.hk

#### Nanjing

##### Frank Xu / Rosemary Hu

Partner  
Tel: +86 25 5791 5208 / 6129  
Fax: +86 25 8691 8776  
Email: frakxu@deloitte.com.cn  
roshu@deloitte.com.cn

#### Shanghai

##### Eunice Kuo

Partner  
Tel: +86 21 6141 1308  
Fax: +86 21 6335 0003  
Email: eunicekuo@deloitte.com.cn

#### Shenzhen

##### Victor Li

Partner  
Tel: +86 755 3353 8113  
Fax: +86 755 8246 3222  
Email: vicli@deloitte.com.cn

#### Suzhou

##### Maria Liang / Kelly Guan

Partner  
Tel: +86 512 6289 1328 / 1297  
Fax: +86 512 6762 3338  
Email: mliang@deloitte.com.cn  
kguan@deloitte.com.cn

#### Tianjin

##### Jason Su

Partner  
Tel: +86 22 2320 6680  
Fax: +86 22 2320 6699  
Email: jassu@deloitte.com.cn

#### Wuhan

##### Gary Zhong

Partner  
Tel: +86 27 8526 6618  
Fax: +86 27 6885 0745  
Email: gzhong@deloitte.com.cn

#### Xiamen

##### Jim Chung / Charles Wu

Partner / Director  
Tel: +86 592 2107 298 / 055  
Fax: +86 592 2107 259  
Email: jichung@deloitte.com.cn  
chwu@deloitte.com.cn

#### About the Deloitte China National Tax Technical Centre

The Deloitte China National Tax Technical Centre ("NTC") was established in 2006 to continuously improve the quality of Deloitte China's tax services, to better serve the clients, and to help Deloitte China's tax team excel. The Deloitte China NTC prepares and publishes "Tax Analysis", "Tax News", etc. These publications include introduction and commentaries on newly issued tax legislations, regulations and circulars from technical perspectives. The Deloitte China NTC also conducts research studies and analysis and provides professional opinions on ambiguous and complex issues. For more information, please contact:

#### National Tax Technical Centre

Email: ntc@deloitte.com.cn

#### National Leader

##### Ryan Chang

Partner  
Tel: +852 2852 6768  
Fax: +852 2851 8005  
Email: ryanchang@deloitte.com

#### Southern China (Hong Kong)

##### Ryan Chang

Partner  
Tel: +852 2852 6768  
Fax: +852 2851 8005  
Email: ryanchang@deloitte.com

#### Northern China

##### Julie Zhang

Partner  
Tel: +86 10 8520 7511  
Fax: +86 10 8518 1326  
Email: juliezhang@deloitte.com.cn

#### Southern China (Mainland/Macau)

##### German Cheung

Director  
Tel: +86 20 2831 1369  
Fax: +86 20 3888 0121  
Email: gercheung@deloitte.com.cn

#### Eastern China

##### Kevin Zhu

Director  
Tel: +86 21 6141 1262  
Fax: +86 21 6335 0003  
Email: kzhu@deloitte.com.cn

#### Western China

##### Tony Zhang

Partner  
Tel: +86 23 8823 1216  
Fax: +86 23 8859 9188  
Email: tonzhang@deloitte.com.cn

If you prefer to receive future issues by soft copy or update us with your new correspondence details, please notify Wendy Luk by either email at [wanluk@deloitte.com.hk](mailto:wanluk@deloitte.com.hk) or by fax to +852 2541 1911.